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No. 15-1189

In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF COSTCO WHOLESALE CORPORATION, LG ELECTRONICS INC., RETAIL LITIGATION CENTER, INC., SK HYNIX INC., AND WESTERN DIGITAL CORPORATION AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

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BRIEF OF COSTCO WHOLESALE CORPORATION, LG ELECTRONICS INC., RETAIL LITIGATION CENTER, INC., SK HYNIX INC., AND WESTERN DIGITAL CORPORATION AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

INTEREST OF THE *AMICI CURIAE*[1]

Amici are leading manufacturers, retailers, and industry groups with a substantial interest in the proper resolution of this case.

- Costco Wholesale Corporation is the second-largest retailer and the largest membership-warehouse club in the United States.
- LG Electronics Inc. is one of the world's leading manufacturers of a wide variety of consumer electronics, mobile devices, and vehicle components.
- The Retail Litigation Center, Inc., is a public policy organization whose members include many of the country's largest retailers.

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[1] Respondent's blanket letter of consent to the filing of *amicus* briefs has been filed with this Court. Petitioner has consented to the filing of this brief; written documentation of that consent is being submitted concurrently. No counsel for a party wrote this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amici curiae*, their members, or their counsel made a monetary contribution intended to fund its preparation or submission.

- SK hynix Inc. is one of the world's largest manufacturers of semiconductors and memory chips.
- Western Digital Corporation is one of the world's leading manufacturers of data-storage devices and solutions and is a leading technology innovator, with more than 13,000 active patents.

Amici depend on an efficient and administrable first-sale doctrine. Product manufacturers require certainty regarding their ability to incorporate into products patented components acquired by their supply chain. Retailers likewise depend on the ability to resell products that they purchase from patentees, authorized licensees, and downstream sellers after authorized sales. *Amici* therefore have a significant interest in preventing unlawful restrictions on the free use and flow of duly purchased patented goods.

SUMMARY OF ARGUMENT

"For over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent rights that survive the initial authorized sale of a patented item." *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 621 (2008). The Federal Circuit's decision below grafts two far-reaching exceptions onto that doctrine. According to the decision below, a patentee can circumvent the first-sale doctrine domestically—and thus restrict purchasers' subsequent use or sale of a patented article—simply by imposing "conditions" when it sells the article. And foreign sales of a patented article, even when authorized by the patentee, are immune from the

first-sale doctrine altogether. The exceptions created by the Federal Circuit are contrary to this Court's precedents, misinterpret the purposes of the Patent Act, and stifle competition—with profound implications for businesses and consumers alike.

I. The decision below will harm businesses and consumers by disrupting the free and orderly operation of markets.

a. The Federal Circuit's exhaustion rules will impose significant costs. Finished goods of all kinds often consist of multiple components that are themselves patented. The post-sale restraints authorized by the decision below cast a pall of uncertainty on the sale and resale of goods, and impose unwarranted costs on manufacturers and retailers.

Consumers will also suffer. The implication of the Federal Circuit's limitation on the first-sale doctrine is that a tourist who purchases a patented product abroad cannot take that product back to the United States—or use it here—without committing patent infringement. This Court should not sanction such a rule.

b. This Court recognized these same concerns in *Kirtsaeng*. The decision below brushes aside those concerns as copyright-specific. But this Court's analysis in *Kirtsaeng* was not so circumscribed. To the contrary, this Court explained that a robust first-sale doctrine is essential to protect the free flow of goods generally, and expressly addressed the implications for sales of cars, calculators, and computers—products that are undoubtedly subject to patents as well as copyrights. The Federal Circuit's

exhaustion rules will impede competition and imperil the very secondary markets that the common law has sought to protect for centuries.

II. The decision below conflicts with this Court's precedents holding that patentees cannot use the patent laws to enforce contractual conditions on the use of a patented article after its authorized sale.

a. "The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates *all* patent rights to that item." *Quanta*, 553 U.S. at 625 (emphasis added). That doctrine recognizes that "the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article." *United States* v. *Univis Lens Co.*, 316 U.S. 241, 251 (1942). The conditional-sale doctrine articulated by the Federal Circuit in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), and reaffirmed by the decision below, undermines that congressional purpose and impermissibly expands the scope of the patent monopoly.

The decision below also runs counter to the common law's longstanding disapproval of restraints on the alienation of chattels, which thwart competition and the development of robust secondary markets. Because the Patent Act says nothing to the contrary, "it did not alter" that "common-law rule." *Microsoft Corp.* v. *i4i Ltd. P'ship*, 131 S. Ct. 2238, 2254 (2011). Indeed, this Court has invoked the common law's hostility to restraints on alienation to support the application of the first-sale doctrine in both the patent and copyright contexts.

b. The decision below wrongly held that a patentee can nevertheless enforce any post-sale restriction on the use or sale of a patented article *through the patent laws*—unless the restriction would run afoul of some *other* source of law, such as the antitrust laws. Because the single-use condition at issue here is not *per se* illegal, the court reasoned, it is *necessarily* enforceable through an infringement action. In reaching that conclusion, the Federal Circuit opined that this Court's exhaustion precedents did not interpret the scope of the patent laws, but rather held only that patentees could not use the patent laws to enforce restraints that were *per se* illegal under other laws.

But those precedents were not so limited. Rather, this Court's early exhaustion cases make clear that the key inquiry is to determine whether, by enacting the *patent laws*, Congress intended to confer on patentees the right to use those laws to enforce post-sale restrictions on lawfully purchased articles. This Court has consistently answered no: Such restraints are "beyond the limits of the monopoly secured by the patent act"—*irrespective* of whether they would be prohibited by antitrust or other laws. *Bauer & Cie* v. *O'Donnell*, 229 U.S. 1, 17 (1913).

c. Patentees are not powerless to control the use or sale of their goods. To the contrary, this Court's precedents make clear that patentees, subject to legal regimes governing sales of goods generally, may use *contract law* to enforce such restrictions. And that is as it should be. Such restrictions are a creature of contract and should therefore be enforced under contract law. The Federal Circuit's fundamental error was in holding that such contractual

conditions on the post-sale use of a product can be enforced through the *patent laws*.

d. This Court should also reject the Federal Circuit's reaffirmation of *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), which held that foreign sales place a patented article outside of the first-sale doctrine. The court below believed that *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013)—which rejected a similar rule in the copyright context—is beside the point, because patent law is not *always* the same as copyright law. But the question here is only whether there is any reason to treat exhaustion differently in the patent and copyright contexts. There is not. The common law's longstanding disapproval of restraints on alienation is equally applicable in the patent context and compels the conclusion that the first-sale doctrine applies to patented articles lawfully sold abroad.

ARGUMENT

I. THE DECISION BELOW WILL HARM BUSINESSES AND CONSUMERS

This Court has long acknowledged the centrality of the first-sale doctrine to the free and orderly operation of markets. In *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659 (1895), for example, this Court held that "one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place." *Id.* at 666. "The inconvenience and annoyance to the public that an opposite conclusion would occasion," this Court explained, "are too obvious to require illustration."

Id. at 667. In *Bloomer* v. *McQuewan*, 55 U.S. 539, 550 (1852), the Court explained that if a patentee sought to reduce competitors' profits he should do so "in an open and fair competition." And in *Bauer* the Court emphasized that the first-sale doctrine serves to ensure that the patent monopoly "is no grant of a privilege to keep up prices and prevent competition." 229 U.S. at 16.

The decision below guts the clarity provided by the first-sale doctrine. It eliminates the doctrine entirely for patented articles first sold abroad. And it gives patentees unwarranted power to do the same for articles first sold domestically, so long as their chosen restrictions on future alienation are communicated clearly and do not violate any other laws.

In light of the complexity of the modern supply chain, the Federal Circuit's restrictive view of the first-sale doctrine creates enormous complications, uncertainties, and inefficiencies—the ultimate effect of which is higher costs for consumers. As the dissent below observed, the "[p]ost-sale restraints" invited by the majority's decision "would 'cast a cloud of uncertainty over every sale.'" Pet. App. 117a (quoting *Tessera, Inc.* v. *Int'l Trade Comm'n*, 646 F.3d 1357, 1370 (Fed. Cir. 2011)). Such a practical problem is "too serious, too extensive, and too likely to come about for" this Court "to dismiss [it] . . . as insignificant." *Kirtsaeng*, 133 S. Ct. at 1367.

A. The Federal Circuit's Exhaustion Rules Impose Enormous Costs For Manufacturers, Retailers, And Consumers

1. Goods of all kinds—computers, smartphones, automobiles, and even medicines—incorporate

innumerable components made throughout the world. One report tracking iPhone production, for example, identified 785 different part suppliers in 31 countries. See Ian Barker, *The Global Supply Chain Behind the iPhone 6*, http://goo.gl/ehweyR. And the iPhone is not unique: as a general matter, "computer hardware and software contain an incredibly large number of incremental innovations." Fed. Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy, Executive Summary*, at 6 (Oct. 2003), http://goo.gl/auSnUJ. Even "a given semiconductor product . . . will often embody hundreds if not thousands of 'potentially patentable' technologies," and that is just one part of a consumer device. Bronwyn H. Hall & Rosemarie Ham Ziedonis, *The Patent Paradox Revisited: An Empirical Study of Patenting in the U.S. Semiconductor Industry, 1979-1995*, 32 RAND J. Econ. 101, 110 (2001).

Consider a manufacturer of touch-screen displays that owns patents covering that technology. It sells its displays, outside the United States, to a manufacturer of electronic control systems. The controller manufacturer incorporates the touchscreen displays into its systems overseas and then imports them into the United States. Those systems are, in turn, sold to an appliance manufacturer that incorporates them into the displays and user controls for its appliances. The appliance manufacturer then sells its products to U.S.-based retailers for sale in the United States.

Under the Federal Circuit's exhaustion rules, even though the display manufacturer voluntarily sold its products to the control manufacturer at a price of its choosing, the control manufacturer, the

appliance manufacturer, *and* the U.S. retailer would be subject "to the disruptive impact of the threat of infringement suits." *Kirtsaeng*, 133 S. Ct. at 1365. The same result would follow even if the display manufacturer first sold its wares in the United States but did so with a condition restricting future resale or use.[2]

If the decision below stands, each product developer and manufacturer would therefore face increased pressure to trace to origin the patent rights of every single component it purchases. If it turns out that any individual component was first sold abroad—or even domestically, but subject to a condition on future reuse or resale—the manufacturer may feel compelled to negotiate an appropriate licensing agreement with the component manufacturer (as well as any sub-component manufacturer). And all of this would be *over and above* the standard purchase contract for each component itself.

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[2] Perversely, the Federal Circuit's view that international sales do not exhaust patent rights creates an incentive for U.S. patentees to manufacture and sell their goods abroad. If a patentee manufactures and sells a good within the United States, the sale normally exhausts all patent rights. Even assuming *Mallinckrodt* was correctly decided, the patentee may (under the Federal Circuit's rule) be able to constrain future alienation through a clearly communicated condition at the time of sale. Under *Jazz Photo*, however, the patentee need not even bother to do that if it shifts production and sales overseas. Congress could not possibly have intended the patent laws to create such "an inefficient incentive to shift domestic production abroad." Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 Cardozo L. Rev. 55, 142 n.380 (2001).

Such a regime would inject significant uncertainty into the marketplace. Product developers are not generally concerned with the legal location of where the sale took place, and instead focus on where the patented components they purchase or license will be delivered. Typically, that will be where they manufacture the products that use those components. And, increasingly often, that will be overseas—even though the products are destined for sale in the United States. Thus, under the Federal Circuit's rule, component manufacturers will have no way of knowing what legal regime governs the sale or license of their patented articles.

Further complicating matters, many products are developed subject to worldwide licensing agreements under which a licensee pays royalties on every product it makes that practices a licensor's patents (U.S. or foreign), regardless of where those products are ultimately sold. Under the Federal Circuit's exhaustion rules, products made by that licensee that end up being sold in the United States would exhaust the licensor's patent rights, but those same products, made by the same licensee under the same worldwide licensing agreement, that happen to be sold outside the United States would *not* exhaust such rights.

These concerns are exacerbated by the proliferation of non-practicing entities ("NPEs"), who buy patent rights from inventors that may have once authorized the practice of their patents pursuant to worldwide licenses. See *eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) ("An industry has developed in which firms use patents not as a basis for producing and

selling goods but, instead, primarily for obtaining licensing fees."). Because under the decision below foreign sales do not exhaust the patent rights (even when *royalties may have already been paid on them*), NPEs can threaten or sue product manufacturers and their downstream U.S. importers, retailers, and customers, alleging infringement in order to extract *additional* royalties on products used in the United States. Those lawful downstream purchasers, in turn, then seek indemnification from the manufacturer—which, of course, already paid a royalty to the original patent holder upon its first sale abroad. The manufacturer is nevertheless obligated to defend the suit or pay yet another royalty to the NPE. The impact of the lower court's decision is that the patent laws will be used not to promote innovation, but for "the creation of private fortunes for the owners of patents." *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 511 (1917).

Because supply chains involve dozens if not hundreds of suppliers and sub-manufacturers all around the world, the impracticality of such a limited exhaustion regime is manifest. If product manufacturers and their direct and indirect customers are unable to rely on the authorized first sale of a component as exhausting all patent rights to that component, licensing-compliance costs could be staggering.

And the issue is not simply cost; the Federal Circuit's exhaustion rules also hinder innovation. New products often result from novel ideas regarding combinations of existing components. Creating those new combinations, however, requires confidence that

the patent rights underlying the components have been exhausted by the initial sale. The decision below undermines that confidence.

2. The negative impact of the Federal Circuit's exhaustion rules is also felt by large and small retailers who sell millions of products annually, many of which incorporate individually patented components. Not only will those retailers remain responsible for ensuring that the products they sell are authentic (*i.e.*, not counterfeit or pirated), but they will also face added pressure to determine and verify the patent rights associated with each component in those products, or induce friction in the supply chain through efforts to ameliorate the risk of infringement actions. Those processes—along with the cost of additional licensing fees—impose significant costs on retailers. Those costs are ultimately passed on to consumers in the form of higher prices or reduced access to lower-cost alternatives.

Realistically, moreover, neither the national chain that imports billions of dollars of goods for resale each year, nor the small local shop that purchases its inventory from a distributor, can always know the provenance of every lawfully made good it sells—and particularly those first sold abroad and imported for sale in the United States. Retailers often have no reasonable way to ascertain whether anything about the goods is protected by patent or whether that patent has been exhausted. That is particularly true in cases in which a patented method or component is at best ancillary to the goods that the retailer is selling.

If patentees had the right to prevent the resale or importation of lawfully made goods, the retail industry would have less confidence to buy goods from independent exporters or importers. As noted, to mitigate the risk of such uncertainly, retailers often try to shift liability to their sellers through contractual representations and indemnification provisions. But those protections, too, impose additional costs. The Federal Circuit's exhaustion rules therefore create precisely the burdens that have long concerned this Court. See *Kirtsaeng*, 133 S. Ct. at 1366 (noting the "horribles" associated with limiting exhaustion principles).

3. The damage caused by the decision below is not limited to industry. It causes substantial harm and confusion for consumers as well. As noted, in the modern supply chain manufacturers sell components to product developers, who sell their products to retailers, and then ultimately to consumers. The component manufacturers' initial sale often takes place abroad. The rule adopted by the decision below creates strong incentives for initial component sales to take place in the United States—resulting in fewer goods offered at retail, in fewer retail outlets, at higher prices.

Moreover, the decision below mandates a number of perverse outcomes. Foremost among them is that individual copies of a patented good—be it a Nikon camera purchased by a tourist on vacation in Japan or a Teva sandal purchased by a student studying abroad in Israel—cannot lawfully be brought home, resold, given away, *or even used* in the United States by the purchaser without committing patent infringement.

To be sure, it is often suggested—and was, indeed, argued by Respondent below (Lexmark Panel Br. 54)—that patentees will not bring suit to stop such *de minimis* acts of infringement. But, as this Court observed in *Kirtsaeng*, "a copyright law that can work in practice only if unenforced is not a sound copyright law. It is a law that would create uncertainty, would bring about selective enforcement, and, if widely unenforced, would breed disrespect for copyright law itself." 133 S. Ct. at 1366. So too here.

Indeed, if anything, the problem is more pronounced in the patent context. As Justice Ginsburg noted in dissent in *Kirtsaeng*, a number of copyright-specific defenses and exceptions—such as fair use, the so-called "suitcase exception," and specific exemptions for libraries—might have mitigated some of the practical concerns expressed by the Court. *Id.* at 1388-89. Patent law, however, provides no such relief.

B. The Policy Concerns This Court Recognized In *Kirtsaeng* Are Equally Applicable In The Patent Context

The concerns raised here are not new; the Court discussed them at length in *Kirtsaeng*. The Federal Circuit asserted that this Court's treatment was "copyright-specific" and "to a large extent, though not entirely, tied to the distinctive problems of museums, libraries, and booksellers." Pet. App. 75a. But the Court's opinion was not nearly so constrained. To the contrary, the Court *expressly* took account of the very concerns of both technology companies and retailers raised again here. See *Kirtsaeng*, 133 S. Ct.

at 1365 (citing, *inter alia*, Brief for Retail Litigation Center, Inc., *et al.* as *Amici Curiae*).

Indeed, *Kirtsaeng* acknowledged the use of copyrights in common technologies such as "automobiles, microwaves, calculators, mobile phones, tablets, and personal computers"—products plainly subject to patent rights. 133 S. Ct. at 1365. And the Court went on to explain that a rule limiting exhaustion to domestically made items "would prevent the resale of, say, a car, without the permission of the holder of each copyright on each piece of copyrighted automobile software." *Ibid.* That would also be true with respect to the hundreds of *patented* components of an automobile. Without permission from each of the patentees, "a foreign car owner could not sell his or her used car." *Ibid.*

The decision below asserts that patent law is simply different. Whereas pre-*Kirtsaeng* copyright precedent "was too fractured to give meaningful comfort that . . . practical problems . . . were unlikely to materialize" (Pet. App. 75a), the Federal Circuit claimed, "*Mallinckrodt* has been the governing case law since 1992" (*id.* at 60a), and *Jazz Photo* the "clear rule since 2001" (*id.* at 75a). Yet, the court continued, "we have been given no reliable demonstration of widespread problems not being solved in the marketplace" (*id.* at 60a).

But the patent law is not nearly so settled, nor was the copyright law nearly so unsettled, as the Federal Circuit assumed. To the contrary, district courts have repeatedly raised concerns about the viability of the Federal Circuit's patent-exhaustion precedents. See, *e.g.*, *LG Elecs., Inc.* v. *Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1047 (N.D. Cal. 2009). As the

dissent noted, so too have commentators. See Pet. App. 114a (citing 12 Phillip A. Areeda & Herbert Hovenkamp, Antitrust Law ¶ 2044, at 300 & 301 n.15 (3d ed. 2012)); see also Pet. Br. 23-24 n.5. And, of course, the United States has consistently asserted (as it does again here) that *Mallinckrodt* and *Jazz Photo* were incorrectly decided. See U.S. Cert. Br., *Impression Prods., Inc.* v. *Lexmark Int'l, Inc.* (No. 15-1189), 2016 WL 5957534; U.S. Br., *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761 (No. 11-796), 2013 WL 137188); U.S. Br., *Quanta*, 553 U.S. 617 (No. 06-937), 2007 WL 3353102.

In contrast, before *Omega S.A.* v. *Costco Wholesale Corp.*, No. 04-05443, 2007 WL 7029734 (C.D. Cal. Feb. 6, 2007), *rev'd*, 541 F.3d 982 (9th Cir. 2008), *aff'd by an equally divided Court*, 562 U.S. 40 (2010)—the precursor to *Kirtsaeng*—a geographic interpretation of copyright exhaustion had been the universal rule in the federal courts for nearly thirty years. See *CBS, Inc.* v. *Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984). Commentators uniformly asserted that view was correct. See, *e.g.*, 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[B][6](b), at 8-178.4 (rev. ed. 2009). And the United States defended it three times in this Court (in *Quality King*, in *Costco*, and again in *Kirtsaeng*). Indeed, before 2010, only a single court had ever even called the prevailing, geographic view of copyright exhaustion into question at all (in a footnote). See *Sebastian Int'l, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 & n.1 (3d Cir. 1988).

Against that backdrop, there is not "considerably more reason to discount predictions" of what might materialize if the decision below is left intact than there was in the copyright context. Pet. App. 75a. And, as the Court noted in *Kirtsaeng*, "the fact that harm has proved limited so far may simply reflect the reluctance of copyright holders so far to assert geographically based resale rights. They may decide differently if the law is clarified in their favor." 133 S. Ct. at 1366. The same goes for patent holders.

In the end, there is no reason to presume that Congress intends for materially different exhaustion regimes to govern copyrights and patents. And there is significant harm in presuming otherwise. As noted, the same products often include both patented and copyrighted elements. See *Kirtsaeng*, 133 S. Ct. at 1365. In practice, parties routinely assert copyright and patent interests in the same product. See, *e.g.*, *Amini Innovation Corp.* v. *Anthony Calif., Inc.*, 439 F.3d 1365 (Fed. Cir. 2006); *Gemmy Indus. Corp.* v. *Chrisha Creations Ltd.*, 452 F.3d 1353 (Fed. Cir. 2006); *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322 (Fed. Cir. 2000).

Disparate exhaustion rules yield bizarre results in which sales abroad (or at home, subject to restrictions) exhaust some U.S. intellectual property rights but not others. Such a regime would encourage further gamesmanship in the use of intellectual property rights in order to restrict secondary markets that the common law has sought to protect for hundreds of years. This Court should not abide such a result, which would only exacerbate the "inconvenience and annoyance to the public" that

the patent laws seek to prevent. *Keeler*, 157 U.S. at 667.

II. THE DECISION BELOW CONFLICTS WITH THIS COURT'S HOLDINGS THAT POST-SALE RESTRICTIONS IMPERMISSIBLY EXPAND THE PATENT MONOPOLY AND THWART COMPETITION

This Court's precedents make clear that two conditions suffice to invoke the first-sale doctrine: (1) there has been a sale of a patented article, and (2) that sale was authorized by the patentee. If those conditions are met, the patentee "can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights." *United States* v. *Gen. Elec. Co.*, 272 U.S. 476, 489 (1926).

That should be the end of the matter. Respondent, however, seeks to do just what the first-sale doctrine forbids: exploit the patent laws to control the use of an article after an authorized sale. The decision below authorizes that end run around the first-sale doctrine—and effects a dramatic expansion of the scope of the patent monopoly—on the basis that a patentee can attach *any* "otherwise-lawful restriction as to post-sale use or resale." Pet. App. 26a. In other words, the majority takes the position that post-sale restrictions can be vindicated through *the patent laws* unless they would run afoul of some *other* source of law, such as antitrust or misuse law. *Id.* at 29a.

But the Federal Circuit has it exactly backwards. In determining the scope of the patent monopoly, a court must do just that: determine what rights

Congress intended to confer upon patentees *through the patent laws*, not what it sought to restrict through other laws. And nothing suggests that Congress intended to expand the patent monopoly to control the downstream use or sale of lawfully purchased articles.

A. The Patent-Exhaustion Doctrine Promotes Competition And Implements Congress's Limitations On The Patent Monopoly

1. The patent system "embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology." *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989). Consistent with that bargain, this Court has "uniformly recognized that the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article." *Univis Lens Co.*, 316 U.S. at 251. "[O]nce that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold." *Ibid.* The first-sale doctrine therefore reflects the fact that the patent law gives patentees "but one royalty"—and no more. *Keeler*, 157 U.S. at 663; see *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013).

The doctrine articulated by the Federal Circuit in *Mallinckrodt*, reaffirmed by the decision below, runs counter to that bedrock principle. As this Court has recently reiterated, the "longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates *all patent rights* to that item," including the right to impose "postsale restrictions on the use of a patented

article." *Quanta*, 553 U.S. at 625 (emphasis added). But that is just what the decision below permits: It allows patentees to impose restrictions on the use or sale of a patented article *after* an authorized sale of that article—and thus after the patentee has already "received his consideration." *Adams* v. *Burke*, 84 U.S. 453, 456 (1873). The Federal Circuit's rule therefore undoes the careful balance crafted by Congress.

2. The patent-exhaustion doctrine has an "impeccable historic pedigree" that antedates the patent laws—and is rooted in principles of free and fair competition. *Kirtsaeng*, 133 S. Ct. at 1363 (2013). As this Court observed in *Kirtsaeng*, Lord Coke explained in the 17th century that the common law "refus[ed] to permit restraints on the alienation of chattels." *Ibid.* Once an owner sells a chattel, "'his whole interest . . . is out of him,'" and restrictions on the resale or disposition of the chattel are "'against Trade and Traffi[c], and bargaining and contracting.'" *Ibid.* (quoting 1 E. Coke, Institutes of the Laws of England § 360, p. 223 (1628)).

Coke therefore emphasized "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods." *Ibid.* And, as this Court has recognized, that very concern articulated by Lord Coke—the need to protect "Trade and Traffi[c]," including robust post-sale markets—explains why "American copyright law has long applied that doctrine." *Kirtsaeng*, 133 S. Ct. at 1365-66.

It also explains why "[f]or over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent rights that survive the initial

authorized sale of a patented item." *Quanta*, 553 U.S. at 621. After all, "where a common-law principle is well established, . . . courts may take it as given that Congress has legislated with an expectation that the principle will apply except when a statutory purpose to the contrary is evident." *Astoria Fed. Sav. & Loan Ass'n* v. *Solimino*, 501 U.S. 104, 108 (1991) (internal quotation marks omitted). Here, nothing in the patent laws suggest that Congress displaced the longstanding common-law disapproval of restraints on alienation.

To the contrary, "[i]t has long been settled that the patentee receives nothing from the law which he did not have before, and that the only effect of his patent is to restrain others from manufacturing, using, or selling that which he has invented." *Motion Picture Patents*, 243 U.S. at 510. Thus, as this Court observed in applying the patent-exhaustion doctrine in 1917, "restraints upon [a patented article's] further alienation"—such as restrictions on resale price—"have been hateful to the law from Lord Coke's day to ours." *Straus* v. *Victor Talking Mach. Co.*, 243 U.S. 490, 501 (1917).

Indeed, the patent-exhaustion rule articulated by this Court (and rejected by the Federal Circuit) "is in accord with the views of Thomas Jefferson," who "served as a member of the first Patent Board" and "drafted the comprehensive Patent Law of 1793." *Gen. Talking Pictures Corp.* v. *W. Elec. Co.*, 305 U.S. 124, 128 n.1 (1938) (Black, J., dissenting). Specifically, Jefferson suggested that "'the purchaser of the right to use the invention should be free to apply it to *every* purpose of which it is susceptible.'" *Ibid.* (quoting The Writings of Thomas Jefferson,

Vol. VI, H.A. Washington, Editor, p. 372) (emphasis added); cf. *Kirtsaeng*, 133 S. Ct. at 1370-71 (citing Jefferson for the proposition that the Founders did not intend to provide the right to divide markets or charge different prices for the same book).

Providing examples of the free use of invention by a purchaser, Jefferson noted that "a screw for crushing plaster might be employed for crushing corn-cobs," and "a chain pump for raising water might be used for raising wheat." *Ibid.* (quoting The Writings of Thomas Jefferson at p. 181). The decision below, however, would enable a patentee to prohibit such uses through contract—and then bring a *patent infringement* action against Jefferson's hypothetical corncob crusher. The use of the patent laws to enforce such restraints on trade runs afoul of longstanding common-law principles, conflicts with this Court's precedents, and stretches the patent monopoly beyond the breaking point.

B. The Decision Below Wrongly Holds That The Patent Laws Can Be Used To Enforce Any Post-Sale Restriction That Is Not Otherwise Illegal

1. In the decision below, the majority reaffirmed *Mallinckrodt*'s holding that post-sale restrictions on the use or sale of patented articles are *necessarily* enforceable through the patent laws, so long as they do not run afoul of antitrust or other laws. That holding represents a profound misinterpretation of this Court's precedents and conflates the question whether the *patent laws* authorize a sale or use restriction with the question whether the *antitrust laws* prohibit it.

Mallinckrodt addressed whether a "single use only" restriction could be enforced through an infringement action. In answering that question, the Federal Circuit addressed the so-called "*Bauer* trilogy," in which this Court held that various restraints could not be enforced through the patent laws. *Mallinckrodt*, 976 F.2d at 703 (citing *Bauer*, *supra*). According to *Mallinckrodt*, however (and according to the majority below, see Pet. App. 27a-30a), the *Bauer* trilogy merely "established that *price-fixing and tying* restrictions accompanying the sale of patented goods were *per se* illegal"—and therefore said nothing about restrictions accompanying the sale of patented goods generally. *Mallinckrodt*, 976 F.2d at 704 (emphasis added).

But that is not what *Bauer* and its progeny held. In *Bauer*, the assignee of a patent on a chemical established a minimum resale price for distributors of the chemical. The question presented was whether a distributer's resale of the chemical at a lower price "constitute[d] *infringement* of appellants' patent," *Bauer*, 229 U.S. at 9 (emphasis added)—not, as the Federal Circuit assumed, whether it was *otherwise legal*. And this Court squarely held that such post-sale restrictions are *not* within the scope of the patent monopoly: Once an article is sold, it "'passes without the limit of the monopoly" and "is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.'" *Id.* at 18 (quoting *Adams*, 84 U.S. at 456).

In reaching that conclusion, this Court cautioned that "care should be taken not to extend by judicial constriction the rights and privileges which it was

the purpose of Congress to bestow." *Id.* at 10. Although "it was the intention of Congress to secure an exclusive right to sell," this Court explained, there "is no grant of a privilege to keep up prices and prevent competition." *Id.* at 17. Accordingly, this Court held, the post-sale restriction was "beyond the limits of the monopoly secured by the patent act." *Ibid.*

This Court reached the same conclusion in *Straus* v. *Victor Talking Machine Co.*, the second case in the *Bauer* trilogy. There, the patentee attached a notice to its phonographic machines setting a minimum transfer price, and then brought an infringement action to enforce that restriction. The question presented was whether the price restriction constituted "a means of securing to the owner of the patent that exclusive right to use its invention which is *granted through the patent law*, or whether, under color of such a purpose, it is a device unlawfully resorted to in an effort to profitably extend the scope of the patent at the expense of the general public." *Straus*, 243 U.S. at 497-498 (emphasis added).

Once again, then, the question was not (as the Federal Circuit would have it) whether the restriction was illegal under antitrust or other laws, but whether it impermissibly expanded the scope of the *patent laws* beyond the balance reached by Congress. And, once again, this Court held that such post-sale restrictions did not fall "within the grant of the patent laws." *Id.* at 501. Such restrictions, this Court emphasized, are "obnoxious to the public interest" and would "work great and widespread injustice to innocent purchasers." *Ibid.*

The same goes for the third case in the trilogy, *Boston Store of Chicago* v. *American Graphophone Co.*, 246 U.S. 8 (1918), which also involved resale price restrictions. And again the question this Court addressed was whether "the right to enforce [the restriction was] *secured by the patent law*"—that is, "whether the monopoly of the patent law can be extended beyond the scope of that law or, in other words, applied to articles after they have gone beyond its reach." *Id.* at 20, 26 (emphasis added).

This Court's answer was no. *Id.* at 27. In reaching that conclusion, this Court explained that "one who had sold a patented machine and received the price and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no longer applied." *Id.* at 25. Thus, contrary to the Federal Circuit's interpretation in *Mallinckrodt* (and in the decision below), all three cases in the *Bauer* trilogy focused squarely on the scope of the patent laws—and held that post-sale restraints on the use of patented goods cannot be enforced through those laws.

Mallinckrodt also addressed *Motion Picture Patents*, which involved a patentee's attempt to restrict the use of a patented movie projector to films leased by the patentee. The Federal Circuit characterized this Court's decision in that case as holding that the tie-in was *per se* illegal. *Mallinckrodt*, 976 F.2d at 704. But, once again, this Court made abundantly clear that its decision in *Motion Picture Patents* was not restricted to the question whether the tying arrangement was permissible under laws

other than the patent laws. Indeed, the Court explained that "[t]he extent to which the use of the patented machine may validly be restricted to specific supplies or otherwise by special contract . . . is a question outside the patent law, and with it we are not here concerned." 243 U.S. at 509. Rather, the task for this Court was to "determine the meaning of Congress when" it provided a patentee the exclusive right to "use" its invention. *Ibid.*

In determining Congress's meaning, this Court observed that it "has consistently held that the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents, but is 'to promote the progress of science and the useful arts.'" *Id.* at 511 (quoting U.S. Const. art. I, § 8). This Court therefore rejected the attempted post-sale restriction at issue—not because the restriction ran afoul of the general laws, but rather because it was "wholly without the scope and purpose of our *patent laws*, and because, if sustained," it would promote "private fortunes" rather than scientific progress. *Id.* at 519 (emphasis added).

In sum, this Court's precedents stand for the proposition that the patent laws cannot be expanded to control post-sale conduct, *irrespective* of whether such conduct is permitted by the antitrust laws. Therefore, the fact that, as the decision below observed, "Impression has not claimed that the restrictions at issue violate antitrust, patent-misuse, or similar constraints," Pet. App. 61a, is irrelevant to the proper resolution of this case.

2. That is not to say that Congress's objective of promoting free and fair competition is irrelevant to

the interpretation of the patent laws. To the contrary, as noted above, the common law's disapproval of restraints on alienation is rooted in a concern that buyers of goods be free to compete with each other. This Court's precedents likewise make clear that the patent-exhaustion doctrine, in particular, reflects Congress's desire to balance the goals of fostering innovation and promoting competition. Given those purposes, it would be exceedingly odd for Congress to have authorized patentees to use the patent laws to enforce price-fixing, tying, and territorial-allocation arrangements that were considered anticompetitive and illegal *per se* when Congress amended the patent laws in 1952.

The decision below, however, ignores Congress's goal of promoting competition and makes much of the fact that such vertical restraints are now "judged by a rule of reason." Pet. App. 61a. According to the majority, that fact—that post-sale restraints are no longer unlawful *per se* under the antitrust laws—supports its holding that *any* post-sale restrictions are enforceable through the *patent laws*, unless otherwise illegal. *Id.* at 62a-63a.

But it is irrelevant whether, for antitrust purposes, such restraints are considered *per se* illegal or judged according to a rule of reason. Either way, such restraints are subject to scrutiny. As Justice Breyer noted at oral argument in *Quality King Distributors, Inc.* v. *L'anza Research International, Inc.*, 523 U.S. 135, 138 (1998), a case involving copyright law's first-sale doctrine, "[s]ometimes you can" impose such restrictions, and "sometimes you can't." *Quality King* Oral Argument Tr. 30. Thus, for "vertically imposed territorial restrictions" to be

enforceable through copyright law, Justice Breyer suggested, "you [would] have to have a fairly clear expression of congressional intent" to authorize such practices. *Id.* at 30-31.

That is equally true with respect to restraints on the sale or use of patented articles. And, as shown above, Congress did not clearly express an intent to permit such restraints after the lawful sale of patented articles. As a result, consistent with congressional intent, this Court has consistently rejected attempts to enforce post-sale restrictions on the use or sale of patented articles.

Moreover, the implication of the majority's reasoning is that the *Bauer* trilogy is itself no longer good law. After all, the Federal Circuit's position is that those cases turned exclusively on the fact that tie-ins and price fixing were *per se* illegal. Pet. App. 27a. But, as the majority noted (*id.* at 57a-58a), that is no longer the case. The decision below, if allowed to stand, would therefore effectively overturn *Bauer* and its progeny in one fell swoop.

3. The Federal Circuit nevertheless held that its "conditional-sale doctrine" is compelled by the Patent Act, which confers the "'right to exclude,' which 'may be waived in whole or in part.'" Pet. App. 27a (quoting *Mallinckrodt*, 976 F.2d at 703). But see Pet. Br. 33-35 (explaining the Federal Circuit's misconstruction of decisions of this Court discussing "conditional" sales). So, the reasoning goes, because a patentee can exclude *all* uses or sales of a patented article, it can impose *some* restrictions on the use or sale of that article, even after an authorized sale.

But this Court has already rejected that greater-includes-the-lesser argument—*i.e.*, the notion that, "since the patentee may withhold his patent altogether from public use, he must logically and necessarily be permitted to impose any conditions which he chooses upon any use which he may allow of it." *Motion Picture Patents*, 243 U.S. at 514. It did so on the ground that the argument conflates "the rights which are given to the inventor by the patent law," and those "which he may create for himself by private contract." *Ibid.* That is precisely the mistake made by the Federal Circuit in the decision below.

The decision below also places great weight on the fact that the Patent Act confers "separate rights to exclude others from making, using, selling, etc." Pet. App. 58a. According to the court of appeals, that unique aspect of patent law means that the first-sale doctrine (at least in the context of patent law) should *not* be subject to the longstanding common-law rule that authorized purchasers of goods are free to dispose of those goods however they wish. Pet. App. 56a-59a. As noted above, however, in *Straus* this Court expressly invoked the common law's disapproval of restraints on alienation to support the first-sale doctrine *in the patent context*. 243 U.S. at 501.

This Court has also expressly rejected the Federal Circuit's "bundle of sticks" argument. In *Adams*, for example, this Court recognized that, as the decision below notes, the "right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee." *Adams*, 84 U.S. at 456. It nevertheless

held that that fact does *not* give the patentee the right to impose restrictions on post-sale uses or sales: Once a patentee sells a patented article, this Court explained, he "parts with the right to restrict that use." *Ibid.* The fact that the patent law grants those rights "separately," Pet. App. 57a, does nothing to alter that rule.

C. Any Ability Patentees Retain To Restrict The Use Of Patented Articles Is Grounded In Non-Patent Law

The decision below presumes that, as owners of a property right, patentees must be free to impose conditions on the subsequent use or sale of patented products. The decision below also suggests that patentees need a mechanism to segment markets for their products, domestically or internationally, to account for real-world differences among markets and to prevent arbitrage. See Pet. App. 78a-79a.

That may be true, but, if so, those rights are not a function of the *patent law*, enforceable through patent infringement actions. Rather, this Court has made clear that such restrictions on post-sale use are the function of—and are enforceable only through—*contract law*:

> Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.

Keeler, 157 U.S. at 666; see *Quanta*, 553 U.S. at 637 n.7.

What was "obvious" to this Court in 1895 was no longer obvious to the Federal Circuit in 2016. By allowing patentees to use the patent laws to enforce contractual limitations on post-sale uses, the decision below impermissibly extends the scope of the patent monopoly and undermines the bargain that lies at the core of federal patent law.

Such an extension of the patent monopoly is in any event unnecessary to achieve the goals the Federal Circuit sought to promote through the decision below, since patentees can rely on tools other than the patent law to control the use and sale of patented articles. One such tool, of course, is contract law. Indeed, this Court's precedents make clear that, in some circumstances, patentees can place conditions on the conduct of licensees that it cannot place on authorized purchasers.

The decision below rejects the long-established distinction between purchasers and licensees. But that "distinction is a plain one" that has long been recognized by this Court. *Bloomer*, 55 U.S. at 549. Thus, in *General Electric*, the Court reaffirmed that, where a patentee makes an article "and *sells* it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase." 272 U.S. at 489 (emphasis added). "But the question is a different one which arises when we consider what a patentee who grants a *license* to one to make and vend the patented article may do in limiting the *licensee* in the exercise of the right to sell." *Id.* at 489-490 (emphasis added).

This Court's longstanding distinction between sales and licenses is an eminently reasonable one. After all, the first-sale doctrine is just that: generally it applies only after the *sale* of a "particular article." *Bowman*, 133 S. Ct. at 1766 (internal quotation marks omitted). When a patentee himself manufactures and sells an article, there is of course a sale, and that sale is, by definition, authorized. It therefore "puts the article beyond the reach of the monopoly which that patent confers." *Univis*, 316 U.S. at 252.

When a patentee licenses another entity to make and then sell an article, however, there is no sale (yet). The patented article therefore remains within the scope of the patent monopoly—and the patentee is therefore free to impose conditions on the licensee's use or sale of the item covered by the patent. In that situation, the first-sale doctrine is triggered only when the licensee—who stands in the shoes of the patentee—first sells the patented item with the authorization of the patentee. Cf. *Kirtsaeng*, 133 S. Ct. at 1361 (noting that the lessee of a copy will not enjoy the benefit of the copyright first-sale doctrine, but that the purchaser of a copy will).

The fundamental error of the decision below is therefore not that it authorized restrictions on the post-sale use or sale of patented goods. It is that the court of appeals held that *contractual* conditions on the post-sale use of a product can be enforced through the *patent laws*. That distinction matters. Successful patent infringement claims can result in treble damages, attorney's fees, and other remedies that can have disastrous consequences for

unsuspecting downstream businesses and consumers. See 35 U.S.C. §§ 284, 285. This Court should reject the Federal Circuit's dramatic expansion of the patent laws to enforce contractual rights.

D. *Kirtsaeng*'s International-Exhaustion Rule Applies With Equal Force In The Patent Context

In *Kirtsaeng*, this Court held that the first-sale doctrine "applies to copies of a copyrighted work lawfully made abroad." 133 S. Ct. at 1355-56. As noted, in reaching that conclusion, this Court observed that the doctrine was rooted in the common law's longstanding hostility to restraints on the alienation of goods. *Id.* at 1363 (citing Lord Coke). According to the decision below, however, *Kirtsaeng* is irrelevant here because "a conclusion about copyright law does not automatically carry over to patent law." Pet. App. 69a (citing *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 345-46 (1908)). The Federal Circuit therefore reaffirmed its decision in *Jazz Photo*, which held that the first-sale doctrine does not apply to foreign sales of patented articles.

But the question isn't whether conclusions about copyright law *always* compel similar conclusions about patent law. Rather, the question is whether there is any reason to treat copyright law and patent law differently *in a specific context*. And the opinion below provides no valid reason why patent law should diverge from copyright law with respect to international exhaustion. If anything, the chattels addressed by Lord Coke in the 17th century (and subject to the common-law first-sale doctrine) are *more* like patented tools such as printer cartridges

than copyrighted books or recordings. See *Straus*, 243 U.S. at 501 (referencing in the patent context Lord Coke's disapproval of restraints on alienation).

The court of appeals made much of the fact that the Copyright Act contains a statutory first-sale doctrine, while the Patent Law does not. But that distinction cuts the other way. In *Kirtsaeng*, this Court determined whether the Copyright Act's first-sale provision modified the doctrine that *already* existed at common law. Here however, there is no statute that expressly delineates the scope of the first-sale doctrine in the patent-law context. Thus, the common-law doctrines relied on by this Court in *Kirtsaeng* apply with even greater force here. And, as the Court explained in *Kirtsaeng*, the "common law [first-sale] doctrine makes no geographic distinctions." 133 S. Ct. at 1363.

The opinion below also attempts to distinguish patent law from copyright law on the ground that the Patent Act—unlike the Copyright Act—confers "broad rights to control sale and use," and grants those various rights "separately as to making, selling, using, etc." Pet. App. 57a; *id.* at 58a. But the Copyright Act *also* grants separate "exclusive rights," including the right to "reproduce" a copyrighted work; "prepare derivative works"; "distribute copies" of a copyrighted work by sale, rental, or lease; and "perform" or "display" copyrighted works publicly. 17 U.S.C. § 106. Under the majority opinion's own framework, then, the same exhaustion rule should apply to authorized sales in the copyright and patent contexts. And that makes good sense given that, as noted above, many products ranging

from automobiles to personal computers are subject to both copyright and patent protection.

In any event, this Court has already made clear that copyright law and patent law should be treated similarly *with respect to the very issue presented here*—exhaustion based on the sale of a product. In *Bauer*, the Court addressed whether a patentee may limit the price at which future sales of a patented article may be made (after an authorized sale of that article)—a question addressed in the copyright context in *Bobbs-Merrill*. This Court acknowledged that the copyright statute differs from the patent statute, but explained that there nevertheless "is a strong similarity between and identity of purpose in the two statutes"—specifically, that both statutes provide the exclusive right to "vend" articles (or "sell" under the current statutes). *Bauer*, 229 U.S. at 13. Thus, the Court explained, "[t]he sale of a patented article is not essentially different from the sale of a book." *Ibid.*

So too here: The decision below provides no valid reason why the effect of a foreign sale of a patented article (say, the sale of a Nikon camera in Japan) should be treated differently, for purposes of exhaustion, from the foreign sale of a novel by Herzog. As long as the foreign sale was authorized, it exhausts the patentee's right to restrict the purchaser's use or sale of the article. In other words, the same two-step inquiry that applies in the domestic patent exhaustion context also applies in the international exhaustion context: Was there a sale of a patented article, and was it authorized? If so, the patented article "passes to the hands of the

purchaser" and is "no longer within the limits of the monopoly." *Bloomer*, 55 U.S. at 549.

CONCLUSION

The judgment of the Court of Appeals for the Federal Circuit should be reversed.

Respectfully submitted.

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